

FINAL COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE

The record the Commission has compiled in the course of its public hearings, and the research projects that it has commissioned, leave no doubt that there is a critical need for reform of the laws and policies that govern the United States Postal Service. The record fully supports the basic changes which PostCom believes must be made if the Postal Service is to be transformed into a modern, efficient, stable and user responsive channel of communication.

While there are some dissenting views on certain issues and differences on the specifics of reform on others, the overall direction of change is clear and unmistakable. It may be summarized as follows:

➤ The current system of regulation of postal prices and products is unworkable. The breakeven constraint is incapable of rationale application, and the costly and cumbersome cost of service rate setting process should be completely overhauled. The Postal Service must have appropriate flexibility to meet the marketplace economic challenges it faces under a streamlined, but nonetheless competent and vigilant regulatory review process. That regulatory process must enable mailers to take full advantage of worksharing opportunities and incentives while adequately protecting users against monopoly exploitation and unfair competition. The regulatory process must also hold the Postal Service accountable, as it now is not, for the imposition of irrational and arbitrary conditions of eligibility upon mailers' access to worksharing initiatives. The development of "standardization" criteria that too often ignore the needs, interests and capabilities of its users also cannot be tolerated.

➤ The business model under which the Postal Service operates needs to be changed in fundamentally important respects. The financial incentives provided to Postal Service management are grossly inadequate: the only incentive that the current system now provides is to avoid risk, and risk avoidance is not a solution to the challenges confronting the Postal Service. The role and composition of the Board of Governors needs to be changed. The job requires the qualifications, breadth of experience and commitment equal to that of a director of a large publicly traded company; and stakeholders should sit on the Board.

➤ The Postal Service should remain a form of public enterprise charged with the provision of universal affordable service. That necessarily means that a limited monopoly – over non-urgent mail that is required to be entered at First-Class mail rates – should be retained. Otherwise, the current patchwork of unreviewable rules and exceptions to the monopoly statutes should be eliminated. The obligation to provide universal affordable service also means that at least for now, unrestricted access to the mailbox by alternative service providers should not be permitted. However, we emphasize that the postal regulator should be given authority to consider relaxation of this constraint if and when circumstances warrant.

➤ The Postal Service should be restricted to the delivery of letters and other forms of hard copy information and parcels to the intended addressees, to a few traditional "non-postal" activities, and to only those electronic information services that are directly related to and support the Postal Service's core business activities.

The reforms that we seek are complementary and inextricably interrelated. It has been suggested that incentive based rate regulation will not work because the business

incentives of the Postal Service as a public enterprise will be inadequate to counterbalance the demands of "residual claimants." The short answer is that both the breakeven constraint and the constraints on postal service management compensation must be removed. These changes will yield a culture in which incentive regulation – based on fully unbundled costs – has and will work. But greater flexibility does not mean unfettered license for the Postal Service to set its own prices or terms of service. The retention of a monopoly – both statutory and de facto – and the existence of competition, means that some form of regulatory review must exist. Review must be carried out by an independent tribunal skilled and experienced in the law, economics and public policy of ratemaking.

Similarly, the Postal Service cannot be given a blank check to spend profits as it sees fit. Reformation of the role and composition of the Board of Governors, coupled with overhaul of the regulatory review process, provides the requisite checks against the potential for abuse of a more flexible, profit incentive driven management compensation structure.

In combination, the provision of financial incentives to management, the restructuring of the regulatory review process, and the imposition of clear limits on the Postal Service's involvement in non-postal activities provides the clearest possible assurance that transformation, as outlined in the Postal Service's Transformation Plan, the Mailing Industry Task Force Report, and the several reports from the General Accounting Office will be achieved. Above all, taken together, the changes PostCom has advocated are designed to enable the Postal Service to achieve the lowest combined private sector-

public cost through worksharing, upon which the realization of a financially stable, efficient and user responsive postal system indispensably depends.

While we are sure that the Commission will make recommendations that enable and further transformation, it must also guard against the danger of legislative micromanagement. We urge the Commission to encourage Congress to refrain, in its implementation of the Commission's recommendations, from being overly prescriptive. The Commission's study of alternative systems and rate regulation make it abundantly clear that the attempt to legislatively micromanage the ratemaking process – by "hard wiring" or formulaic price caps – is no more likely to be successful than the attempt to micromanage rates through the current cost of service ratemaking process. The permissible bounds of rates, worksharing incentives and the underlying regulatory requirements, must be defined by a zone of reasonableness to be fleshed out by an independent, competent regulatory body as experience, and changes in the market and other economic conditions, dictate.

The same considerations apply to the removal of the breakeven constraint and the management compensation limitation: the attempts to define with particularity, through legislation, how profits should be spent and precisely how much money senior management should be entitled to earn are doomed to failure. They presume a fixed economic environment in a field which is dynamic, and in which innovation and creativity are imperative but can be too readily stifled. For precisely the same reasons, the attempt to define through legislation the upper and lower bounds of the universal service obligation is fruitless: if defined too broadly, the definition would become meaningless, a potential excuse for managerial or regulatory inaction; if defined too

narrowly, the universal service obligation would fail to serve its fundamental purposes. Within a system that has appropriate checks and balances, the term universal service will define itself and will evolve as the Postal Service itself does.

This Commission has carried out the President's mandate with vigor, care and dispatch. The issues – summarized in these final comments – which the Commission has identified and examined are precisely those which, PostCom believes, must be resolved to assure that the Postal Service not merely survives, but thrives in the coming decades. PostCom stands ready to do its share in transforming the Commission's Report into action.

Respectfully submitted,

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